

**AusCann**

ABN 72 008 095 207

**Appendix 4E and Preliminary**

**Unaudited Financial Report**

**30 June 2023**

For personal use only

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

AusCann Group Holdings Limited provides the following information under listing rule 4.3A:

## Details of the reporting period and the previous corresponding period

- Reporting period – year ended 30 June 2023
- Previous corresponding period – year ended 30 June 2022

## Results for announcement to the market

		%	\$
Revenues from ordinary activities	Up	10%	2,235,410
Loss from ordinary activities after tax attributable to members	Down	96%	(1,015,016)
Net loss from the period attributable to members	Down	96%	(1,045,451)
Final and interim dividends	-		
Record date for determining entitlements to dividends	N/A		

	Reporting period	Previous corresponding period
Net tangible asset backing per ordinary share	3.89 cents	4.12 cents

## Commentary on results

The AusCann Group Holdings consolidated entity (AusCann) is pleased to report on its 2023 financial year.

### Neuvis Process Improvement Plan

AusCann launched its own Neuvis® hard-shell capsules in February 2020 using its SEDDS process under the Special Access Pathway (SAS-B) and was encouraged with the initial endorsement of the product by healthcare practitioners and patients.

The cost of production resulted in Neuvis being uneconomic and as a result AusCann commenced a process improvement plan to improve its self-emulsifying drug delivery ('SEDDS') manufacturing technology in 2022.

During the year, the Company completed two additional engineering batches at a new manufacturing location and received interim results confirming improvements in the intermediary bulk cannabinoid powder, including an increase in shelf life by reducing the degradation of THC. Additionally, the Company has been able to reduce the manufacturing time which is expected to significantly reduce the cost of production making the cost of goods economical. Collectively, these improvements could greatly enhance the business case for Neuvis. These changes now enable Auscann to explore opportunities to realise value in Neuvis.

### Strategic Agreement with EuroCann

During the 2022 financial year the Company announced that it had entered into a binding term sheet with European Cannabis Corporation Ltd ('Eurocann') to explore mutual opportunities in the European and Australian cannabis markets.

During the 2023 Financial Year AusCann secured \$2.2 million in stock under its arrangement with European Cannabis Corporation Ltd ('ECC').

Under this agreement AusCann becomes the exclusive agent for ECC's HAPA products in AU/NZ. This includes a diverse cannabinoid product portfolio of raw flower and standardised full spectrum extracts. ECC manufactures all medicinal products under German EU GMP licensed conditions.

ECC's product range to be sold and distributed by AusCann under the collaboration is as follows:

#### THC/CBD cannabis flowers

(Cannabis Flos, raw Cannabis Sativ L. flower)

All cannabis flowers in the product portfolio have been optimized over years – maximum cannabinoid concentration, steady and secure supply throughout the year, stable active ingredient concentration and long shelf life characterise HAPA pharm's pharmaceutical cannabis flowers.

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## Full spectrum CBD extracts

(< 0,2% THC)

HAPA pharm has been producing full-spectrum CBD extracts based on medicinal cannabis flowers for many years. The gentle manufacturing process ensures an incomparable cannabinoid profile without the use of THC-minimizing processes (e.g. distillation for broad-spectrum extracts) or additives such as CBD isolates. Many CBD brands swear by HAPA pharms' unique quality and high cannabinoid and terpene concentration. HAPA Pharm have numerous CBD extracts on offer with CBD concentrations ranging from very low concentrations (< 2%) to well over 25%.

## THC/CBD Full Spectrum Extracts

(Many concentration forms & individualized production)

Full spectrum extracts from HAPA pharm are suitable for many applications in cannabinoid medicine. In contrast to medicinal cannabis flowers, extracts can be taken orally. Thus, they often have a longer and more constant effect, and the dosage is simplified. Standardized extracts are therefore an indispensable form of cannabinoid medicine.

ECC will also provide AusCann with all necessary regulatory support for the products supplied, including documentation required to satisfy compliance with Therapeutic Goods (Standard for Medicinal Cannabis) (TGO 93) Order 201.

AusCann announced an expansion to this agreement aimed to exploit opportunities of mutual interest to both companies, as AusCann grants ECC the exclusive licence to its self-emulsifying drug delivery technology (SEDDS), in its current form, for Europe. This will allow ECC to develop a standardised dosage form of cannabis products for commercialisation in Germany.

## **Advanced Animal Health Programs**

In light of changing market conditions, the Company actively reviewed its research and development portfolio, with a view to undertake a transaction, or a series of transactions, which may involve strategic acquisitions and disposals.

During the year, the Company was pleased to announce that it had entered into a Share Sale Agreement with Animal Health Holdings Pty Ltd ('AHH') to divest a 52% interest in its animal health business, CannPal Animal Therapeutics Pty Ltd ('CannPal').

AusCann implemented a scheme of arrangement to acquire all of the shares in CannPal on 10 March 2021, following the approval of AusCann shareholders [ASX:AC8 March 18, 2021]. The transaction was expected to create a combined entity better able to accelerate the commercialisation of regulatory approved human and animal health products to offset headwinds resulting from the slower than expected uptake of the Special Access Scheme (SAS-B).

However, following a downturn in the market as a result of COVID-19, the Global Cannabis Stock Index fell by over 85% from the time of the transaction to current lows, significantly impacting the capital markets for Companies exposed to the Australian cannabis sector.

Impacts to the macro-economic environment also slowed the development and commercialisation of the Company's animal health assets. This collectively led to an internal review of AusCann's initiatives, including a strategic review of its animal health programs [ASX:AC8 March 18, 2021].

A formal process commenced in April, 2022, to explore opportunities to monetise its animal health assets through divestment or development and commercialisation partnerships while also retaining the upside should the research and development activities prove successful. A data-room was established with an overview of AusCann's core animal health assets, and some of largest animal health companies globally, were invited to participate in a targeted due diligence process. The process did not provide the AusCann Board with an acceptable proposal to maximise the value of the CannPal assets.

The Board believes that the partial divestment presented AusCann and its shareholders with the most upside, in light of an unavailing formal process, to unlock the future value of the CannPal assets while reducing the significant ongoing expenses and liabilities associated with the animal health business. Specifically, AusCann believes that a privately held and focused animal health company is better positioned to attract, secure and maintain strategic partnerships and resources required for the continued development and commercialisation of AusCann's animal health assets with no further research and development spend required by AusCann. [ASX:AC8 March 10, 2023].

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## AusCann Board Changes

On 29 June 2023 AusCann announced the appointment of Mr Brett Mitchell to the Board as an Independent Non-Executive Director and the resignation of Mr Chris Mews as Non-Executive Director.

Mr Mitchell is a corporate finance executive with over 25 years of experience in the venture capital and equity capital markets, with broad experience on transactions in the natural resources, technology and life sciences sectors.

He has been involved in the founding, financing and management of both private and publicly-listed companies, including the first LSE listed medical cannabis company - MGC Pharmaceuticals Ltd (MXC), Australian lithium developer Delta Lithium Ltd (DLI) and private medical cannabis company Levin Health.

Mr Mitchell is also a founder and director of Chieftain Securities Pty Ltd, a Perth based specialist Corporate Advisory and ECM firm.

Importantly the appointment of Mr Mitchell provides AusCann with significant expertise in both the medicinal cannabis sector and corporate transactions including financings, mergers and acquisitions.

## Resignation of Chief Executive Officer

Chief Executive Officer Layton Mills finished full time employment during the quarter. As part of Mr Mills exit agreement he agreed to assist the Company on closing out the Neuvis project and will assume the role of CEO of the entity controlling CannPal.

## Dividends

The Board has not declared dividends or made dividend payments in the periods ended 30 June 2023 and 2022. The Company does not have any dividend or distribution reinvestment plans in operation.

## Details of entities over which control has been gained or lost

On 10 March 2023, the Company entered into a Share Sale Agreement with Animal Health Holdings Pty Ltd (AHH) to divest a 52% interest in its animal health business, CannPal Animal Therapeutics Pty Ltd.

## Details of associates and joint venture entities

There were no associates and joint venture entities in the year ended 30 June 2023.

## Foreign entities

There are no foreign entities.

## Audit status

The consolidated financial statements are in the process of being audited.

## Financial report

The following financial report included in this Appendix 4E does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and operating, financing and investing activities of the consolidated entity as the full financial report. The financial report should be read in conjunction with any public announcements made by AusCann Group Holdings Limited in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The accounting policies applied are the same as those noted in the most recent interim financial report and the previous annual report.

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$	2022 \$
Sales		-	29,735
Less: Cost of goods sold		(45,567)	(43,303)
<b>Net Sales (Loss) Income</b>		<b>(45,567)</b>	<b>(13,568)</b>
Government grants	1	1,248,972	1,531,525
Rental income		413,026	427,500
Interest revenue		618,979	30,021
Other income		-	49,030
<b>Total Income</b>		<b>2,235,410</b>	<b>2,024,508</b>
Loss on sale of investment properties	7	(322,785)	-
Employee benefits expense	1(i)	(748,806)	(1,715,956)
Consulting fees	1(ii)	(236,992)	(223,273)
Research and development (direct costs)	1(iii)	(489,743)	(1,474,512)
Depreciation and amortisation	1(iv)	(147,708)	(1,838,120)
Corporate / Administration expenses		(377,778)	(830,677)
Impairment of inventories		-	(183,306)
Impairment of investment properties		-	(3,854,973)
Impairment of intangible assets	10	-	(15,458,575)
Impairment of fixed assets		-	(759,067)
Other expenses	1(v)	(780,355)	(628,402)
<b>Total Expenses</b>		<b>(3,104,166)</b>	<b>(26,966,861)</b>
<b>Loss Before Tax from Continuing Operations</b>		<b>(868,756)</b>	<b>(24,942,353)</b>
Income tax expense		(25,000)	-
<b>Loss After Tax from Continuing Operations</b>		<b>(893,756)</b>	<b>(24,942,353)</b>
Loss after income tax expense from discontinued operations	10	(151,695)	(1,415,429)
<b>Net Loss After Tax for the Year</b>		<b>(1,045,451)</b>	<b>(26,357,782)</b>
Other comprehensive income, net of tax		-	-
<b>Total Comprehensive Loss for the Year</b>		<b>(1,045,451)</b>	<b>(26,357,782)</b>
<b>Loss per Share from Continuing Operations</b>			
Basic and diluted loss per share (cents)	2	(0.20)	(5.66)
<b>Loss per share from Continuing and Discontinued Operations</b>			
Basic and diluted loss per share (cents)	2	(0.23)	(5.98)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023 \$	2022 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	7,009,891	5,716,641
Inventories	5	-	-
Other current assets	11	6,032,928	1,356,076
<b>Total Current Assets</b>		<b>13,042,819</b>	<b>7,072,717</b>
<b>NON-CURRENT ASSETS</b>			
Right-of-use asset	6	-	38,623
Investment property	7	-	7,200,000
Property, plant and equipment	8	13,235	23,728
Intangible assets	9	-	-
Investment in associate	10	46,555	-
Other non-current assets	11	4,169,083	4,115,090
<b>Total Non-Current Assets</b>		<b>4,228,873</b>	<b>11,377,441</b>
<b>Total Assets</b>		<b>17,271,692</b>	<b>18,450,158</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	141,436	132,086
Lease liabilities	6	-	39,873
Employee entitlements	13	6,459	123,743
<b>Total Current Liabilities</b>		<b>147,894</b>	<b>295,702</b>
<b>Total Liabilities</b>		<b>147,894</b>	<b>295,702</b>
<b>NET ASSETS</b>		<b>17,123,797</b>	<b>18,154,456</b>
<b>EQUITY</b>			
Issued capital	14	93,165,187	93,165,187
Reserves	15	54,882	127,989
Accumulated losses		(76,096,272)	(75,138,720)
<b>TOTAL EQUITY</b>		<b>17,123,797</b>	<b>18,154,456</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

	Issued Capital \$	Share-Based Payments Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2021	93,165,187	786,388	(49,523,879)	44,427,696
Loss after tax for the period	-	-	(26,357,782)	(26,357,782)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(26,357,782)	(26,357,782)
<b>Transactions with owners in their capacity as owners</b>				
Share-based payments	-	84,542	-	84,542
Expired options	-	(742,941)	742,941	-
<b>Balance at 30 June 2022</b>	<b>93,165,187</b>	<b>127,989</b>	<b>(75,138,720)</b>	<b>18,154,456</b>
Balance at 1 July 2022	93,165,187	127,989	(75,138,720)	18,154,456
Loss after tax for the period	-	-	(1,045,451)	(1,045,451)
Other comprehensive income for the period, net of tax	-	-	-	-
	-	-	(1,045,451)	(1,045,451)
<b>Transactions with owners in their capacity as owners</b>				
Share-based payments	-	14,792	-	14,792
Expired options	-	(87,899)	87,899	-
<b>Balance at 30 June 2023</b>	<b>93,165,187</b>	<b>54,882</b>	<b>(76,096,272)</b>	<b>17,123,797</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 \$	2022 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Interest received		3,518	48,010
Government grants and incentives		1,248,972	1,531,525
Receipts from customers		510,731	361,599
Payments to suppliers and employees		(5,420,700)	(4,772,148)
<b>Net cash used in operating activities</b>		<b>(3,657,481)</b>	<b>(2,831,014)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment property	7	6,740,000	-
Payments for buildings and building improvements	8	-	(84,269)
Payments for plant and equipment	8	-	(402)
Payments for loan to European Cannabis Corporation	11	(5,750,000)	(5,000,000)
Receipts from European Cannabis Corporation	11	2,000,000	-
<b>Net cash from / (used in) investing activities</b>		<b>2,740,000</b>	<b>(5,084,671)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of lease liabilities		(39,270)	(47,597)
<b>Net cash used in financing activities</b>		<b>(39,270)</b>	<b>(47,597)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,293,250</b>	<b>(7,963,282)</b>
Cash and cash equivalents at the beginning of the financial year		5,716,641	13,679,923
<b>Cash and cash equivalents at the end of the financial year</b>	<b>4</b>	<b>7,009,891</b>	<b>5,716,641</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

### NOTE 1: OTHER INCOME AND EXPENSES

	2023 \$	2022 \$
<b>Government Grants</b>		
Research and development grant incentive	1,224,372	1,484,379
Export market development grant	24,600	-
WA payroll tax grant	-	-
	<u>1,248,972</u>	<u>1,484,379</u>
<b>Expenses</b>		
Total expenses include the following specific expenses:		
<b>(i) Employee Benefits</b>		
Employee benefits expense	734,015	1,628,647
Share-based payment expense – employees	14,792	84,542
	<u>748,806</u>	<u>1,713,189</u>
<b>(ii) Consulting Fees</b>		
Consulting fees	236,992	223,273
	<u>236,992</u>	<u>223,273</u>
<b>(iii) Research and Development (Direct Costs)</b>		
Raw materials	44,732	137,415
Contract manufacturing R&D	8,734	279,025
Consultants – R&D	145,221	350,468
Analytics	149,947	265,060
Site costs	10,232	38,266
Pharmaceutical development	130,877	270,654
Other	-	4,725
	<u>489,743</u>	<u>1,345,613</u>
<b>(iv) Depreciation and Amortisation</b>		
Investment properties	137,215	140,735
Property, plant and equipment	10,493	71,668
Intangible assets	-	1,579,369
	<u>147,708</u>	<u>1,791,722</u>
<b>(v) Other Expenses</b>		
Occupancy expenses	3,740	2,514
Legal expenses	181,290	73,785
Travel and accommodation	73,778	56,751
Licenses and permits	1,122	40,231
Marketing	45,618	66,544
Other	474,807	374,2287
	<u>780,355</u>	<u>614,053</u>

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 2: EARNINGS PER SHARE

	2023 cents	2022 cents
<b>Basic and Diluted Loss per Share (in Cents)</b>		
From continuing operations	(0.20)	(5.62)
From discontinued operations	(0.03)	(0.36)
Total basic and diluted loss per share	<u>(0.23)</u>	<u>(5.98)</u>

The earnings and weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share are as follows:

	2023 \$	2022 \$
<b>Reconciliation of Loss Used in Calculating Loss per Share</b>		
<i>Loss attributable to ordinary equity holders of the parent</i>		
From continuing operations	(893,756)	(24,765,779)
From discontinued operations	(151,695)	(1,592,003)
Net loss for the year	<u>(1,045,451)</u>	<u>(26,357,782)</u>

	2023 Number	2022 Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	440,547,110	440,547,110

No securities are currently classified as dilutive potential ordinary shares. All options and performance rights on issue are anti-dilutive since their inclusion would reduce the loss per share.

## NOTE 3: SEGMENT DISCLOSURES

During the year, the consolidated entity operated in one business segment, being the research and development of medicinal cannabis.

This focus is consistent with the internal reports that are reviewed and used by the Board of Directors of AusCann Group Holdings Ltd (chief operating decision makers) in assessing performance and determining the allocation of resources.

### 2023

Consolidated	Corporate \$	Medicinal Cannabis Research and Development \$	Discontinued Operations \$	Total \$
<b>Total Revenue</b>	618,979	1,616,431	23,688	2,235,411
<b>Total Expenses</b>	(21,733)	(3,082,433)	(175,383)	(3,279,549)
<b>Profit (Loss) Before Income Tax</b>	597,246	(1,466,002)	(151,695)	(1,020,451)
Income tax expense	-	(25,000)	-	(25,000)-
<b>Loss After Income Tax</b>	<u>597,246</u>	<u>(1,491,002)</u>	<u>(151,695)</u>	<u>(1,045,451)</u>

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 3: SEGMENT DISCLOSURES (CONTINUED)

### 2023 (continued)

	Corporate	Medicinal Cannabis Research and Development	Discontinued Operations	Total
<b>Consolidated Assets</b>				
Segment assets	5,060,848	12,210,844	-	17,271,692
<b>Total Assets</b>	<b>5,060,848</b>	<b>12,210,844</b>	<b>-</b>	<b>17,271,692</b>
<b>Liabilities</b>				
Segment liabilities	-	147,894	-	147,894
<b>Total Liabilities</b>	<b>-</b>	<b>147,894</b>	<b>-</b>	<b>147,894</b>

### 2022

	Corporate	Medicinal Cannabis Research and Development	Discontinued Operations	Total
<b>Consolidated</b>				
	\$	\$	\$	\$
<b>Total Revenue</b>	<b>30,021</b>	<b>1,951,643</b>	<b>42,844</b>	<b>2,024,508</b>
<b>Total Expenses</b>	<b>(101,612)</b>	<b>(26,645,831)</b>	<b>(1,634,847)</b>	<b>(28,382,290)</b>
<b>Loss Before Income Tax</b>	<b>(71,591)</b>	<b>(24,694,188)</b>	<b>(1,592,003)</b>	<b>(26,357,782)</b>
Income tax (expense)	-	-	-	-
<b>Loss After Income Tax</b>	<b>(71,591)</b>	<b>(24,694,188)</b>	<b>(1,592,003)</b>	<b>(26,357,782)</b>
<b>Assets</b>				
Segment assets	10,129,739	8,052,111	268,308	18,450,158
<b>Total Assets</b>	<b>10,129,739</b>	<b>8,052,111</b>	<b>268,308</b>	<b>18,450,158</b>
<b>Liabilities</b>				
Segment liabilities	9,204	236,225	50,273	295,702
<b>Total Liabilities</b>	<b>9,204</b>	<b>236,225</b>	<b>50,273</b>	<b>295,702</b>

## NOTE 4: CASH AND CASH EQUIVALENTS

	2023	2022
	\$	\$
Cash at bank and in hand	7,009,891	5,716,641
	<b>7,009,891</b>	<b>5,716,641</b>

## NOTE 5: INVENTORIES

Raw materials	2,774,058	2,774,058
Finished goods	-	4,000
Less: Provision for stock obsolescence	(2,774,058)	(2,778,058)
	<b>-</b>	<b>-</b>

The non-cash impairment of inventories relates to a write down on the value of resin raw materials due to changes in the wholesale cost of cannabinoid resins resulting from downward pressure on API prices with increased competition in global markets. This has reduced the retail floor price of medical cannabis products reducing the net realisable value of the resins. There were also minimal sales of the Group's finished goods since the previous year and thus obsolescence has been provided for against the stock as at 30 June 2023. This provision will be reassessed as the group progresses with its research, development and commercialisation plans.

## AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

### NOTE 6: RIGHT-OF-USE ASSET AND LEASE LIABILITIES

	2023 \$	2022 \$
<b>Right-of-Use Asset</b>		
Land and buildings – right-of-use	-	92,697
Less: Accumulated depreciation	-	(54,073)
	<u>-</u>	<u>38,624</u>
<b>Changes to the Right-of-Use Asset Carrying Amount</b>		
Carrying amount at beginning of the year	38,624	84,972
Depreciation of right-of-use asset	(38,624)	(46,348)
Carrying amount at 30 June	<u>-</u>	<u>38,624</u>
<b>Lease Liabilities</b>		
Current lease liabilities	-	39,873
	<u>-</u>	<u>39,873</u>
<b>Changes to the Lease Liabilities Carrying Amount</b>		
Carrying amount at beginning of the year	39,873	85,304
Interest on unwinding of lease liabilities	614	2,166
Repayment of lease liabilities	(40,487)	(47,597)
Carrying amount at 30 June	<u>-</u>	<u>39,873</u>

On 22 April 2021, the Company's subsidiary, CannPal, entered into a lease for 2 years. The lease was not renewed upon the expiration of its term on 22 April 2023. The carrying value of the right-of-use asset and lease liabilities have been reduced to \$ Nil as at 30 June 2023.

### NOTE 7: INVESTMENT PROPERTY

On 17 June 2021, the Company entered into an agreement to lease the Company's research and development facility in Wangara, Western Australia to Source Certain International ("SCI").

The key terms of the agreement between the Company and SCI are as follows:

- Term of lease: 5 years plus two extension options of 5 years and 5 years;
- Permitted use: Laboratory, chemistry, development, manufacture, supply and cultivation;
- Rent: \$475,000 p.a. ex GST (subject to CPI increases and rent reviews);
- Incentive: First 6 months' rent free;
- Outgoings: SCI responsible for operating expenses related to the facility;
- Right of first refusal: SCI has first right to purchase the facility if AusCann proposes to sell; and
- Service agreement: AusCann has the right to negotiate a service level agreement allowing for SCI to provide AusCann with research and analytical services in the research and development facility.

Rental income of \$413,026 is shown within revenue for the year ended 30 June 2023 (2022: \$427,500), with the amount representing straight-line amortisation of the rental income to be received by the Company over the next 5 years, taking the 6-month lease incentive into account.

**AUSCANN GROUP HOLDINGS LTD**

ABN 72 008 095 207

**NOTE 7: INVESTMENT PROPERTY (CONTINUED)**

The risks associated with rights the Company retains in underlying assets are not considered to be significant.

The investment property has been valued at cost, based on the amount which was previously classified as land and buildings which was part of the Company's property, plant and equipment.

In line with expected valuation cycles, the Company obtained a full valuation of the investment property prior to 30 June 2022. The Company recognise an impairment loss of \$3,854,973 as a result of the decline in value of the property for the year ended 30 June 2022.

On 9 June 2023, the Company sold its investment property for \$6,740,000 before costs and recognised a loss on sale amounting to \$322,785.

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>Amounts Recorded at Cost</b>		
Investment property	11,349,505	11,349,505
Less: Accumulated depreciation and impairment	(4,202,452)	(4,149,505)
Less: Disposal of investment property	(7,062,785)	-
	<u>-</u>	<u>7,200,000</u>
<b>Changes to the Carrying Amounts</b>		
Carrying amount at beginning of year	7,200,000	11,111,439
Additions to investment property	-	84,269
Depreciation charged during the year	(137,215)	(140,735)
Impairment in value	-	(3,854,973)
Disposal of investment property	(7,065,785)	-
Carrying amount at end of the year	<u>-</u>	<u>7,200,000</u>

**NOTE 8: PROPERTY, PLANT AND EQUIPMENT**

Computer equipment at cost	40,730	40,730
Less: Accumulated depreciation	(37,646)	(37,315)
	<u>3,084</u>	<u>3,415</u>
Furniture and fittings at cost	90,087	90,087
Less: Accumulated depreciation	(81,137)	(73,934)
	<u>8,950</u>	<u>16,153</u>
Plant and equipment at cost	916,554	916,554
Less: Accumulated depreciation	(156,286)	(153,327)
Less: Impairment	(759,067)	(759,067)
	<u>1,201</u>	<u>4,160</u>
<b>Total</b>	<u><b>13,325</b></u>	<u><b>23,728</b></u>

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 8: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Computer Equipment	Furniture and Fittings	Plant and Equipment	Total
Balance at 30 June 2021	8,619	22,866	822,576	854,061
Additions	402	-	-	402
Impairment			(759,067)	(759,067)
Depreciation expense	(5,606)	(6,713)	(59,349)	(71,668)
Balance at 30 June 2022	3,415	16,153	4,160	23,728
Depreciation expense	(331)	(7,023)	(2,959)	(10,493)
Balance at 30 June 2023	3,084	8,950	1,201	13,235

## NOTE 9: INTANGIBLE ASSETS

	2023 \$	2022 \$
Acquired intellectual property	-	17,492,283
Less: Accumulated amortisation	-	(2,033,708)
Less: Impairment	-	(15,458,575)
	-	-

The fair value of the Group's acquired intellectual property was recognised as part of the business combination of CannPal Animal Therapeutics Pty Ltd ("CannPal")

## NOTE 10: INTEREST IN ASSOCIATE, JOINT VENTURE AND DISCONTINUED OPERATIONS

### (a) Investment in Associate

	2023 \$	2022 \$
Investment in associate	46,555	-
	46,555	-

On 10 March 2023, the Company entered into a share sale agreement with Animal Health Holdings Pty Ltd (AHH) to privatise its animal health business, CannPal Animal Therapeutics Pty Ltd (CannPal), by divesting 52% of its investment in CannPal to AHH.

AHH is a special purpose vehicle with will assume the responsibility for all current and future expenses for the development and commercialisation of the animal health assets of CannPal. AHH will be controlled by the Company's former management team. The Company has retained a 48% free-carried interest in CannPal and has no obligation to fund CannPal's operations. The Company retains the right to re-acquire the shares in CannPal upon the failure of CannPal to reach agreed development and commercialisation milestones.

The consolidated entity's interest in CannPal up to 10 March 2023 has been reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 10: INTEREST IN ASSOCIATE, JOINT VENTURE AND DISCONTINUED OPERATIONS (CONTINUED)

### (a) Investment in Associate (continued)

#### (i) Financial Performance Information

##### Associate Profit and Loss

	1 Jul 2022 To 10 Mar 2023 \$	1 Jul 2021 to 30 Jun 2022 \$
Net sales income	-	4,339
Government grants	-	47,146
Other income	1	37
Administration costs	(175,383)	(219,418)
Loss for the period	(175,382)	(176,574)

AusCann's share of CannPal's loss for the period	(175,382)	(176,574)
--------------------------------------------------	-----------	-----------

##### AusCann's share of CanPal's loss recognised in Auscann group

Gain on sale of investment in CannPal	23,687	-
---------------------------------------	--------	---

##### Loss after Income Tax Expense from Discontinued Operations

(151,695)	(176,574)
-----------	-----------

#### (ii) Financial Position Information

	30 Jun 2023 \$	30 Jun 2022 \$
Cash and cash equivalents	-	75,787
Other current assets	-	38,808
Right-of-use asset	-	38,623
Other non-current assets	-	115,090
Trade and other payables	-	(10,850)
Lease liability	-	(39,873)
<b>Net Assets</b>	-	217,585

AusCann's share of CannPal's net assets	-	217,585
-----------------------------------------	---	---------

#### (iii) Cash Flow Information

	1 Jul 2022 to 10 Mar 2023 \$	1 Jul 2021 to 30 Jun 2022 \$
Payments to suppliers and employees	(869)	(141,072)
Net cash used in operating activities	(869)	(141,072)
Receipts from related party	36,439	140,596
Net cash used in investing activities	36,439	140,596
Payments for lease liability	(35,937)	(47,602)
Net cash used in financing activities	(35,937)	(47,602)

##### Net decrease in cash and cash equivalents from discontinued operations

(367)	(48,078)
-------	----------

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 10: INTEREST IN ASSOCIATE, JOINT VENTURE AND DISCONTINUED OPERATIONS (CONTINUED)

### (a) Investment in Associate

#### Reconciliation of Loss After Tax from Discontinued Operations to Net Cash Used in Operating Activities of Discontinued Operations

	2023	2022
	\$	\$
Profit/(Loss) after income tax expense from discontinued operations	(151,695)	(176,574)
<i>Adjusted for:</i>		
Gain on disposal of partial interest in subsidiary	(23,687)	-
Depreciation of right-of-use asset	34,761	46,349
Interest expense	101	2,173
(Increase)/decrease in other current assets	139,651	34,887
Increase / (decrease) in trade payables and accruals	-	(47,906)
	<u>(869)</u>	<u>(141,072)</u>

#### (iv) Carrying Amounts of Assets and Liabilities Disposed

	10 Mar 2023	30 Jun 2022
	\$	\$
Cash and cash equivalents	75,420	-
Other current assets	38,520	-
Other non-current assets	3,862	-
<i>Total Assets</i>	<u>117,802</u>	<u>-</u>
Trade and other payables	191,922	-
<i>Total Liabilities</i>	<u>191,922</u>	<u>-</u>
<i>Net Liabilities / Equity</i>	<u>(74,120)</u>	<u>-</u>
<b>Carrying amount of the investment in CannPal disposed</b>	<b><u>50,432</u></b>	<b><u>-</u></b>

#### (v) Details of the Disposal of Subsidiary

	10 Mar 2023
	\$
Total sale consideration	1
Carrying amount of net liabilities disposed	74,120
Carrying amount of investment disposed	<u>(50,432)</u>
<b>Gain on disposal of CannPal before income tax</b>	<b>23,687</b>
Less: Income tax expense on gain on disposal	<u>-</u>
<b>Gain on disposal of CannPal after income tax</b>	<b><u>23,687</u></b>



# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 10: INTEREST IN ASSOCIATE, JOINT VENTURE AND DISCONTINUED OPERATIONS (CONTINUED)

### (b) Joint Venture

The consolidated entity had a 50% interest in DayaCann which was a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity was a jointly controlled entity it was treated as a joint venture under AASB 11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements.

On 10 November 2020, AusCann announced an agreement with GrowForChile SpA ("GFC") and Telor International Limited ("Telor") in respect to the sale of the consolidated entity's 50% owned Chilean joint venture, DayaCann SpA ("DayaCann"). On 22 March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in DayaCann, and the transfer of the Company's loan.

An amount of USD \$200,000 was received on signing in December 2020. A further payment of USD \$200,000 was received in March 2021. These were in consideration for AusCann's 50% interest in DayaCann shares. An amount of USD \$100,000 was received in February 2021 towards the transfer of the loan. AusCann was expecting to receive further receipts totalling USD \$1,000,000 towards the transfer of the loan over the next two years (USD \$500,000 by 28 February 2022 and USD \$500,000 by 28 February 2023). These receivable amounts have been disclosed as deferred considerations.

The USD \$1,000,000 is currently in dispute and has been fully provided for with an impairment charge of \$1,415,429 during the year ended 30 June 2022. Refer to Note 11 for further details.

## NOTE 11: OTHER ASSETS

	2023 \$	2022 \$
<b>Current</b>		
Accounts receivable	170	26,623
Accrued income	110,833	182,084
GST receivable	17,804	(3,456)
Accrued interest	615,462	-
Prepayments	1,035	108,825
Loan to European Cannabis Corporation (ii)	2,750,000	1,000,000
Advances for stock	2,250,000	-
Deferred consideration receivable within 1 year (i)	1,415,429	1,415,429
Provision for impairment on deferred consideration for sale of DayaCann (i)	(1,415,429)	(1,415,429)
Short term deposits	287,623	42,000
	<u>6,032,928</u>	<u>1,356,076</u>
<b>Non-Current</b>		
Prepayments	-	115,090
Loan to European Cannabis Corporation (ii)	4,000,000	4,000,000
Loan to CannPal	169,083	-
	<u>4,169,083</u>	<u>4,115,090</u>
	<u>10,202,011</u>	<u>5,471,166</u>
<b>(i) Movement in provision for expected credit losses</b>		
Balance at beginning of year	1,415,429	-
Provision for expected credit losses during the period	-	1,415,429
<b>Balance at end of year</b>	<u>1,415,429</u>	<u>1,415,429</u>

## AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

### NOTE 11: OTHER ASSETS (CONTINUED)

The Group considers that there is evidence of impairment if any of the following indicators are present: financial difficulties of the debtor, probability that the debtor will dispute amounts owing and default or delinquency in payment (more than one year old).

During the year, an assessment was made of the recoverable balances as at 30 June 2023. Each receivable has been assessed individually for recovery, and those deemed to have a low chance of recovery have been fully provided for in the current period.

During the year, there was a dispute with GrowForChile SpA ("GFC") and Telor International Limited who claimed a breach of warranty under the share sale agreement. The Group believes that it will succeed in the dispute, however due to the SPA being governed by Chilean law and is subject to arbitration in Chile the Group identified this as an impairment indicator for the current deferred consideration receivables for the sale of DayaCann. In line with this indication of impairment, the current deferred consideration receivables for the sale of DayaCann have been fully provided for.

#### (ii) Loan to European Cannabis Corporation

On 29 April 2022, the Group granted a loan to European Cannabis Corporation (ECC) for a total amount of \$5,000,000 for the purpose of capital expenditure for the construction of additional greenhouses, expansion of manufacturing capabilities, and exclusivity for the commercialisation of medicinal cannabis products for the Australian and New Zealand markets. The loan is subject to interest of 7.5% per year.

On 29 August 2022, the Group increased the loan facility provided to ECC by an additional \$3,750,000 and \$1,000,000 on 30 March 2023.

The loan is to be repaid at \$1,000,000 on each of the first anniversary and the second anniversary of the date of the loan and the balance owing to be paid on the third anniversary of the date of the loan. During the year, the Group received repayments of \$2,000,000 on various dates.

The loan is secured by a general security deed by with ECC grants security interest over all its assets and all the shares it holds in HAPA Parm B.V. and a share pledge agreement wherein HAPA Pharm B.V. grants a security interest over all the shares it holds in HAPA Pharm GmbH, from time to time, together with a guarantee and indemnity in favour of the Group in respect of the amount owing by the ECC.

### NOTE 12: TRADE AND OTHER PAYABLES

	2023	2022
	\$	\$
Trade payables and accrued expenses	134,950	113,151
PAYG and superannuation payable	6,486	18,935
	<u>141,436</u>	<u>132,086</u>

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

### NOTE 13: EMPLOYEE ENTITLEMENTS

	2023	2022
	\$	\$
<i>Current</i>		
Provision for annual leave	<u>6,459</u>	<u>123,743</u>

# AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

## NOTE 14: ISSUED CAPITAL

	2023	2022	2023	2022
	\$	\$	Number of Shares	Number of Shares
Ordinary shares – fully paid, net of costs	93,165,187	93,165,187	440,547,110	440,547,110
	<b>93,165,187</b>	<b>93,165,187</b>	<b>440,547,110</b>	<b>440,547,110</b>

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## NOTE 15: RESERVES

### Share-Based Payments Reserve

The share-based payments reserve is used to recognise the value of share-based payments provided to directors and employees or suppliers for services provided.

#### Movements in Share-Based Payments Reserve:

	2023	2022
	\$	\$
Opening balance	127,989	786,388
Performance rights vesting to employees (refer to Notes 16)	14,792	77,484
Options vesting to employees	-	7,058
Adjustment for expired options / performance rights	(87,889)	(742,941)
	<b>54,882</b>	<b>127,989</b>

## AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

### NOTE 16: SHARE-BASED PAYMENTS

On 1 July 2021, the Company granted 500,000 performance rights to Dr Margaret Curtis pursuant to the Company's Employee Securities Incentive Plan approved by Shareholders on 27 November 2018 and in accordance with her employment contract. Dr Curtis' Performance Rights will consist of four (4) equal tranches of 125,000 Performance Rights with market-based achievement goals over a five-year term commencing 1 July 2021 as follows:

- Tranche 1: the share price achieving a minimum of \$0.30 for 30 consecutive days;
- Tranche 2: the share price achieving a minimum of \$0.50 for 30 consecutive days;
- Tranche 3; the share price achieving a minimum of \$0.75 for 30 consecutive days; and
- Tranche 4: the share price achieving a minimum of \$1.00 for 30 consecutive days.

The total fair value of the Dr Curtis' Performance Rights has been calculated at \$47,051. The fair value was calculated using a Parisian Barrier valuation model and the following assumptions were used in the estimation:

	<i>Tranche 1</i>	<i>Tranche 2</i>	<i>Tranche 3</i>	<i>Tranche 4</i>
Fair value per right	\$0.1196	\$0.1004	\$0.0841	\$0.0723
Number of rights	125,000	125,000	125,000	125,000
Total fair value of tranche	\$14,950	\$12,550	\$10,513	\$9,038
<u>Assumptions</u>				
Spot price	\$0.15	\$0.15	\$0.15	\$0.15
Exercise price	Nil	Nil	Nil	Nil
Barrier price	\$0.30	\$0.50	\$0.75	\$1.00
Vesting date	N/A	N/A	N/A	N/A
Expiry date	18 March 2026	18 March 2026	18 March 2026	18 March 2026
Vesting schedule	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price	30 consecutive days above exercise price
Expected future volatility	80%	80%	80%	80%
Risk-free rate	0.73%	0.73%	0.73%	0.73%
Dividend yield	Nil	Nil	Nil	Nil

The performance rights were issued on 16 February 2022.

In addition to these, the following performance rights previously granted during the year ended 30 June 2021, were also issued on 16 February 2022 to the following key management personnel:

- 2,000,000 CEO Performance Rights to Mr Layton Mills. Details of his performance rights including vesting conditions and fair value valuation are included in Note 18(b) of the annual financial report for the year ended 30 June 2022; and
- 1,000,000 CFO Performance Rights to Mr Charles Altshuler. Details of his performance rights including vesting conditions and fair value valuation are included in Note 18(c) of the annual financial report for the year ended 30 June 2022.

The share-based payment expense arising from the amortisation of the fair value of the above Performance Rights, and for options and performance rights vesting from prior periods, was \$14,792 during the year ended 30 June 2023 (2022: \$84,542). Mr Mills resigned on 13 September 2022 and the fair value of performance rights amounting to \$50,843 was transferred from Reserves to Accumulated losses. On 7 April 2022, Mr Altshuler resigned and the fair value of performance rights amounting to \$18,820 was transferred from Reserves to Accumulated losses. On 31 March 2023, Dr Curtis resigned and the fair value of performance rights amounting to \$17,835 was transferred from Reserves to Accumulated losses. In addition, 325,000 options exercisable at 15.38 cents expired on 9 November 2022. The reserves relating to these options amounting \$19,221 was transferred from Reserves to Accumulated Losses.

No signing bonuses were paid during the current or previous financial years.

## AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

### NOTE 17: CONTINGENT LIABILITIES

The Group are currently in dispute with GrowForChile SpA ("GFC") and Telor International Limited ("Telor"), who bought 50% of DayaCann from the Group during the prior year. The disputed amounts are in relation to the USD 1,000,000 to be transferred to the Group, of which USD 500,000 was due on 28 February 2022 and the other USD 500,000 is due by 28 February 2023. Based on the sale and purchase agreement, the Group does not have any outstanding obligations and consider GFC and Telor's claims to be unjustified. However, due to the matter being in dispute, there may be legal fees incurred. The magnitude of these legal fees cannot be determined at the date of this report.

In addition, the Group has recognised a provision for expected credit losses on the full amount which was due (refer to note 11).

Other than the above, the Group is not aware of any other contingent liabilities as at 30 June 2023.

### NOTE 18: EVENTS SUBSEQUENT TO REPORTING DATE

On 31 July 2023, the Company was pleased to announce that it has expanded its agreement with European Cannabis Corporation Limited ('ECC'), that will now see AusCann sell and distribute EU GMP certified medicinal cannabis in Australia and New Zealand.

Expanding on the term sheet signed by the two companies and announced to the ASX on 29 April 2022, AusCann becomes the exclusive agent for ECC's HAPA products in AU/NZ. This includes a diverse cannabinoid product portfolio of raw flower and standardised full spectrum extracts. ECC manufactures all medicinal products under German EU GMP licensed conditions. This expansion has not resulted in any additional consideration.

ECC will also provide AusCann with all necessary regulatory support for the products supplied, including documentation required to satisfy compliance with Therapeutic Goods (Standard for Medicinal Cannabis) (TGO 93) Order 201.

The Company forwarded a further \$1.3m to ECC under the loan facility on 3 July 2023.

The Company issued a convertible note to ECC for a further \$0.65m. Terms as follows:

- 6 month term,

- Secured against company assets,

- 12.5% interest pa, accrued monthly

- At the election of the lender, it may elect to convert the loan amount plus interest, or part thereof, into equity at a 20% discount to the last capital raise

There were no other events occurring subsequent to the end of the financial year that have significant affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.